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Financial reports and audited financial statements, and reports of the Board of Auditors

Financial reports and audited financial statements and reports of the Board of Auditors for the period ended 31 December 2009

Report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction

1. In accordance with regulation 7.12 of the Financial Regulations and Rules of the United Nations (ST/SGB/2003/7), the Advisory Committee on Administrative and Budgetary Questions received copies, some in advance form, of the financial reports, audited financial statements and reports of the Board of Auditors to the General Assembly for 16 entities of the United Nations system for the biennium ended 31 December 2009. The Advisory Committee also received the Board's reports for the voluntary funds administered by the United Nations High Commissioner for Refugees and for the capital master plan for the year ended 31 December 2009. In addition, the Committee had before it an advance version of the concise summary of the principal findings and conclusions contained in the reports submitted by the Board of Auditors to the General Assembly at its sixty-fifth session (A/65/169), as well as the report of the Secretary-General on the implementation of the recommendations of the Board of Auditors on the accounts of the United Nations, the United Nations funds and programmes and the international tribunals for Rwanda and the Former Yugoslavia for the financial period ended 31 December 2009 (A/65/296 and Add.1). The report of the Board of Auditors for the accounts of the United Nations peacekeeping operations for the financial period from 1 July 2008 to 30 June 2009 (A/65/5 (Vol. II), chap. II) will be considered by the Advisory Committee early in 2011. A list of the audit reports appears in the table below.

2. During its consideration of the reports, the Advisory Committee met with the members of the Audit Operations Committee of the Board of Auditors, who provided additional information and clarification. The Advisory Committee also met with representatives of the Secretary-General to discuss the status of implementation

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of recommendations of the Board and with representatives of the United Nations Population Fund (UNFPA) to discuss the status of remedial action plans and to address the underlying factors of the qualified audit opinion.

3. The Board issued unmodified opinions for nine entities (the United Nations, the International Trade Centre UNCTAD/WTO, the United Nations University (UNU), the United Nations Development Programme (UNDP), the United Nations Children's Fund (UNICEF), the United Nations Institute for Training and Research (UNITAR), the United Nations Office on Drugs and Crime, the International Tribunal for the Former Yugoslavia, and the United Nations Office for Project Services (UNOPS)). For seven other entities, the Board issued modified audit reports with various emphases of matter. These entities are: the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), the Office of the United Nations High Commissioner for Refugees (UNHCR), the United Nations Environment Programme (UNEP), the United Nations Human Settlements Programme (UN-Habitat), the International Criminal Tribunal for Rwanda and the United Nations Joint Staff Pension Fund. One entity, UNFPA, received a qualified audit opinion (see paras. 38-40 below).

4. The reports of the Board of Auditors include replies of the aforementioned entities to the recommendations and observations of the Board of Auditors, as well as additional information on measures taken to implement the recommendations. The entities have generally concurred with the Board's recommendations and have proceeded, as and where appropriate, to implement them. In instances where they do not agree with the recommendations or contend that they are unable to begin implementation, they have provided an explanation.

5. Upon request, the Board of Auditors provided the Advisory Committee with the following table showing the opinions issued by the Board on the financial statements of each entity as well as the number of recommendations that were either accepted or not accepted by each:

		Recommendations		
Organization audited	*Type of opinion issued on the financial statements*	*Accepted*	*Not accepted*	*Total*
1. United Nations (A/65/5 (Vol. I))	Unmodified	68	4	72
2. International Trade Centre UNCTAD/WTO (A/65/5 (Vol. III))	Unmodified	7	2	9
3. United Nations University (A/65/5 (Vol. IV))	Unmodified	15	1	16
4. United Nations Development Programme (A/65/5/Add.1)	Unmodified	89	—	89
5. United Nations Children's Fund (A/65/5/Add.2)	Unmodified	47	3	50
6. United Nations Relief and Works Agency for Palestine Refugees in the Near East (A/65/5/Add.3)	Modified with emphasis of matter	60	1	61
7. United Nations Institute for Training and Research (A/65/5/Add.4)	Unmodified	5	—	5
8. Office of the United Nations High Commissioner for Refugees (A/65/5/Add.5)	Modified with emphasis of matter	24	—	24
9. United Nations Environment Programme (A/65/5/Add.6)	Modified with emphasis of matter	27	—	27

Organization audited	*Type of opinion issued on the financial statements*	*Recommendations*		
		Accepted	*Not accepted*	*Total*
10. United Nations Population Fund (A/65/5/Add.7)	Modified with qualification and emphasis of matter	93	—	93
11. United Nations Human Settlements Programme (A/65/5/Add.8)	Modified with emphasis of matter	16	—	16
12. United Nations Office on Drugs and Crime (A/65/5/Add.9)	Unmodified	12	3	15
13. United Nations Office for Project Services (A/65/5/Add.10)	Unmodified	59	—	59
14. International Criminal Tribunal for Rwanda (A/65/5/Add.11)	Modified with emphasis of matter	20	—	20
15. International Tribunal for the Former Yugoslavia (A/65/5/Add.12)	Unmodified	11	—	11
16. United Nations Joint Staff Pension Fund (A/65/9)	Modified with emphasis of matter[a]	41	—	41
17. Capital master plan (A/65/5 (Vol. V))	Not applicable[b]	20	—	20

[a] The audit report on the accounts of the Joint Staff Pension Fund are included in the report of the United Nations Joint Staff Pension Board.

[b] The financial statements were consolidated in those of the United Nations (A/65/5 (Vol. I)).

6. The comments and recommendations of the Advisory Committee on the report of the Board of Auditors on the United Nations Joint Staff Pension Fund for the biennium ended 31 December 2009 (A/65/9, annex IX) will be submitted separately. Similarly, the Committee will comment on the audit reports on the International Criminal Tribunal for Rwanda (A/65/5/Add.11, chap. II) and the International Tribunal for the Former Yugoslavia (A/65/5/Add.12, chap. II) in the context of its consideration of the financing of the tribunals. Concerning the capital master plan (A/65/5 (Vol. V)), the Committee will comment in the context of the eighth progress report of the Secretary-General on the capital master plan. Furthermore, many of the issues covered by the Board with respect to the United Nations are relevant to reports that the Advisory Committee is taking up during its current session. The Committee will comment further and draw upon the Board's observations on such matters in the context of its consideration of those reports.

7. Prior to its hearings with the Board of Auditors, the Advisory Committee met with the representatives of UNHCR in the context of the review of its revised biennial programme budget 2010-2011. The Committee's report to the UNHCR Executive Committee (A/AC.96/1087/Add.1) contained a number of comments relating to the report of the Board. The Advisory Committee intends to revisit, as necessary, the observations and recommendations of the Board of Auditors during the Committee's review of the biennial budgets of other United Nations entities for the next fiscal period.

II. General observations and recommendations

8. **The Advisory Committee commends the Board of Auditors for the continued high quality of its reports, which prioritize observations and recommendations and are well structured and reader-friendly. The Committee particularly appreciates the concise summary of principal findings and conclusions (A/65/169), which it considers a useful vehicle for highlighting issues that are of concern across the United Nations and its entities. The Committee also welcomes the approach taken by the Board of using a consistent format in the preparation of its reports, which enables a direct comparison of the issues addressed.** As the United Nations and its entities embark on new reform initiatives, including the implementation of the new accounting standards (International Public Sector Accounting Standards (IPSAS)), the collating of findings on existing and emerging cross-cutting issues will take on an increasingly prominent role, rendering the document of particular interest to Member States as they consider the progress of reform implementation. Consequently, the Advisory Committee would welcome the inclusion in the concise summary in future of paragraph references to facilitate cross-referencing.

9. The Advisory Committee was informed that the Board had used approximately 2,200 auditor-weeks during the audit cycle for the biennium 2008-2009, excluding the Board's peacekeeping audits. During the audit period, the Board issued 157 management letters to organizations on matters of programme and financial management. Some of the significant comments contained in those management letters are reflected in the Board's reports to the General Assembly.

10. The Board has included in its reports an annex showing the status of implementation of the Board's recommendations as at 31 December 2007. Upon request, the Advisory Committee was provided by the Board of Auditors with the following table showing the total number of recommendations and the status of implementation since the biennium 2000-2001:

Status of implementation of recommendations

Period	*Number of recommendations*	*Fully implemented*	*Percentage*	*Partially implemented*	*Percentage*	*Not implemented*[a]	*Percentage*
2000-2001	378	172	45.5	178	47.1	28	7.4
2002-2003	509	235	46.2	230	45.2	44	8.6
2004-2005	651	342	52.5	276	42.4	33	5.1
2006-2007	507	238	46.9	237	46.7	32	6.3
2008-2009[b]	543	102	18.8	419	77.2	22	4.1

[a] Includes recommendations that were not implemented because they were overtaken by events.

[b] Data obtained from A/65/296 and A/65/296/Add.1; does not include information on the United Nations Joint Staff Pension Fund, UNHCR or the capital master plan. The reports relating to UNHCR and the capital master plan are submitted on an annual basis.

11. The Board continued its coordination and collaboration with the internal audit services of the United Nations funds and programmes and with the Office of Internal Oversight Services (OIOS) and, when appropriate, utilized the working papers of recent internal audits as a basis for its own audit reviews. The Board noted

that the high vacancy rates in OIOS had an impact on the ability of the Office to fulfil its audit plans (see paras. 34 and 35 below). **The Advisory Committee continues to appreciate the coordination and collaboration of the Board of Auditors with other oversight bodies, including the Office of Internal Oversight Services and internal audit services of the United Nations funds and programmes, as well as the Joint Inspection Unit. The Committee believes that this approach facilitates complementarity of the oversight functions of the United Nations and its entities.**

12. The Advisory Committee was informed by the Board of Auditors that the narratives of its audit reports, regardless of the audit opinion given, provide an indication of the range of risks that the United Nations and its entities will be facing over the coming bienniums. Consequently, and as all entities will utilize a uniform accounting framework under IPSAS, the Board cautioned that any related risks would have to be monitored and addressed on an ongoing basis. **The Advisory Committee concurs with the observations of the Board of Auditors.**

13. The Advisory Committee notes that under IPSAS, the United Nations and its entities will produce financial reports on an annual, instead of a biennial, basis, which will have an impact on the resource requirements of the Board of Auditors, which will be required henceforth to produce its financial audits on an annual basis. **The Advisory Committee believes that the reporting modalities required by Member States under IPSAS, as well as the Board of Auditors' role and resources in this connection, require consideration in advance of the planned implementation of IPSAS in 2014 and therefore recommends that the General Assembly keep this matter under review.**

14. The Advisory Committee is concerned that the Board's continued observations and recommendations on a number of cross-cutting issues remain unresolved. The Committee continues to draw attention to the importance of the implementation of the provisions of paragraphs 10 and 11 of General Assembly resolution 62/223 A, by which the Assembly reiterated its requests to the Secretary-General to provide in his reports a full explanation for delays in the implementation of the recommendations of the Board of Auditors on the accounts of the United Nations as well as on the financial statements of its funds and programmes (see A/63/474, para. 11). **The Advisory Committee is deeply concerned about the recurrence of certain problems, which indicates insufficient managerial action to address them. The recurrence of such problems indicates an exposure to financial risk and insufficient accountability.**

15. The Advisory Committee is also concerned that the continual delays in IPSAS implementation may indicate that the project is more complex and complicated than had been anticipated by the Secretary-General. Moreover, if not addressed in a timely manner, the problems observed by the Board of Auditors may require remedial action in future.

III. United Nations

16. The main recommendations of the Board on the accounts of the United Nations for the financial period ended 31 December 2009 are summarized in its report (A/65/5 (Vol. I), chap. II, summary). The Board issued an unqualified opinion with regard to the financial statements of the United Nations. In the paragraphs below,

the Advisory Committee highlights a number of key issues that the Board raised concerning the United Nations. Many of the observations and recommendations of the Committee in this section, in particular those on IPSAS, after-service health insurance and non-expendable property, also apply to the other organizational entities covered by the Board's audits. Observations and recommendations relating solely to the other organizational entities are set out in section IV below.

Implementation of the International Public Sector Accounting Standards

17. The Advisory Committee intends to comment further on the implementation of IPSAS in the context of its consideration of the Secretary-General's third progress report on the adoption of the International Public Sector Accounting Standards by the United Nations (A/65/308). The Committee therefore provides only general comments on the subject matter in the paragraphs below.

18. In accordance with General Assembly resolution 61/233 A and in response to the comments of the Advisory Committee (see A/61/350), the Board of Auditors carried out a gap analysis on the state of readiness of entities as reflected in their IPSAS plans, as well as new or upgraded enterprise resource planning systems. For the biennium 2008-2009, the Board noted that all of the entities had delayed their implementation of IPSAS from January 2010 to January 2012, with the United Nations and its entities further delaying implementation to January 2014 (A/65/169, para. 37). According to the Secretary-General, reasons for the delay include, inter alia, the need to align IPSAS timetables with related enterprise resource planning system timetables; and problems in recruiting and retaining project staff with the required skills and expertise. Notwithstanding the above, the Board noted in its report that there was a generally high sense of IPSAS awareness and growing preparation in the finance units. In this connection, the Advisory Committee recalls its comments that the United Nations entities were at different stages of preparation for IPSAS (A/63/474, para. 20) and that a number of challenges remained. The United Nations entities should make every effort to address their identified challenges in a timely manner.

19. The Board of Auditors cautioned that the implementation of new accounting and information technology systems, that is, IPSAS and the enterprise resource planning system, will not in and of itself fix the management challenges that the United Nations and its entities face. The preparation and implementation of these projects will lead to new exposure to risk and give rise to new challenges (see para. 12 above). **The Advisory Committee urges the Secretary-General to address issues associated with the transition from United Nations system accounting standards to IPSAS that could have a negative impact on United Nations accounts and to ensure that such issues are promptly addressed by management rather than highlighted post facto in the course of routine audit reviews. Given the importance of these issues, the Committee recommends that the Board of Auditors report to the General Assembly on an annual basis on progress in implementation of IPSAS.**

20. The Board of Auditors noted that that there was a certain amount of flexibility in the interpretation of how IPSAS accounting standards should be applied. During its meeting with the Advisory Committee, the Administration indicated that it was therefore in need of occasional guidance on the interpretation of IPSAS standards to ensure a consistent approach across the United Nations system. The Administration

was looking to the Board of Auditors to provide such advice when necessary. The Committee points out that such advice would serve as a preventive auditing measure in ensuring United Nations-wide consistency and avoiding possible costly problems later, especially in view of the new risks and challenges that may arise, as noted above. **Therefore, the Advisory Committee encourages the Board of Auditors to provide, when requested, advice and guidance on matters relating to the interpretation of IPSAS standards.**

21. Upon request, the Administration provided the anticipated timeline of IPSAS milestones (see annex). **The Advisory Committee notes that this timeline focuses on accounting and information technology milestones primarily at Headquarters. Given that successful implementation will require action throughout the Organization, for example to ensure IPSAS-compliant reporting on non-expendable and expendable property in the field, leadership by senior management is also necessary on these related tasks. Slippage in any area may have an impact on timely implementation. The Committee intends to address this matter when it considers the Secretary-General's third progress report on the adoption of the International Public Sector Accounting Standards by the United Nations (A/65/308).**

After-service health insurance and end-of-service liabilities

22. In accordance with General Assembly resolutions 60/255 and 61/262, the Administration was tasked with changing the presentation of end-of-service and post-retirement liabilities from disclosure in the notes to the financial statements to accounting and presentation on the face of the financial statements. The Board reported that all organizations had, to varying degrees, provided or disclosed their liabilities in this respect. However, United Nations organizations had continued to make book entries, to varying degrees, in relation to those liabilities. As at 31 December 2009, the aggregate amount for the United Nations and its entities of those liabilities was estimated at $3.9 billion (excluding peacekeeping). This represented a decrease compared with the amount as at 31 December 2007, mainly as a result of changes to accounting policies and estimation methods used by organizations.

23. In response to the request in resolution 64/241 that the Secretary-General continue to validate the accrued liabilities for after-service health insurance, with figures audited by the Board, the Board also reviewed the actuarial valuation of the accrued liabilities for after-service health insurance. With regard to annual leave liabilities, the Board noted that most organizations had changed their accounting policy and calculated the annual leave liability on the basis of an actuarial valuation performance by an external consultant. The Board concluded that the method used had not been compliant with IPSAS and proposed that organizations consider revising their policy for valuation of leave liabilities during their implementation of IPSAS.

24. The Board noted that most organizations had still not made a decision regarding the funding of their future liabilities. In addition, in some organizations, the recording of liabilities had led to negative reserves and fund balances, and the Board was concerned that there was a possibility that the organizations might not be in a financial position to fully meet their liabilities in this area when those liabilities became due. The Advisory Committee recognizes that this is an issue that will be addressed in the context of the report of the Secretary-General on managing after-

service health insurance liabilities which was requested by the General Assembly in its resolution 64/241, for submission at its sixty-seventh session.

Results-based budgeting

25. The Advisory Committee recalls that it recommended that the Board continue to place an emphasis on the review of results-based budgeting and results-based management (see A/63/474, para. 39). In the context of the programme budget for the biennium 2008-2009, the Board of Auditors reviewed the central management of results-based budgeting from United Nations Headquarters and its implementation across the Secretariat. The Board also took into consideration previous reviews on results-based budgeting and results-based management, in particular by the Office of Internal Oversight Services (see A/57/474, A/60/73 and A/63/268) and by the Joint Inspection Unit (see A/60/709). The Board's findings were largely unchanged from earlier observations and recommendations in previous audit reports in that results-based budgeting continues to be a work in progress and that narratives (i.e., indicators of achievement and objectives) need to be improved at the United Nations. The Board remains concerned that indicators are still not measurable, accurate, relevant and time-bound.

26. The Board concluded that problems persist in four areas across the United Nations: (a) the formulation of objectives sometimes lacked clarity; (b) the link between accomplishments and objectives was sometimes difficult to identify or practically non-existent; (c) indicators of achievement were often flawed; and (d) external factors were stated in terms that were too vague to be effective (see A/65/5 (Vol. I), para. 202). The Board also pointed out that in the preparation of the budget proposal, managers were encouraged to realign resources to best meet delivery of needs, but that the reporting structure and the various authorizations required for any transfer of resources were so onerous and restrictive that managers preferred to retain the same objects of expenditure from year to year (ibid., para. 206). The Board found that the current process was a long way from allowing improvement in the effectiveness and efficiency of the Organization and concluded that the expectations behind the decision to develop results-based budgeting did not appear to have been matched by the process as implemented within the United Nations. The Administration accepted the Board's recommendation to make results-based budgeting more precise and assured the Committee, upon enquiry, that remedial action would be taken in connection with the programme budget proposal for the biennium 2012-2013.

27. **As also noted in paragraph 25 above, the findings on results-based budgeting by the Board of Auditors and other oversight bodies, as well as the comments by the Committee, have had little impact on how the results-based budgeting framework is presented. The Advisory Committee is concerned that the Secretary-General has not been able to implement a comprehensive results-based budgeting framework, in particular in view of the planned move towards results-based management and given that all oversight bodies of the United Nations have repeatedly examined results-based budgeting and provided significant guidance. The Advisory Committee recalls section H, paragraph 23, of General Assembly resolution 64/259, in which the Assembly requested the Secretary-General to take appropriate measures to accelerate the implementation of results-based management, taking into account paragraph 43**

of the report of the Advisory Committee on Administrative and Budgetary Questions (A/64/683 and Corr. 1).

Procurement and contract management

28. The Board of Auditors identified several issues regarding procurement matters in special political missions of modest size. Most of those issues stem from the imprecise legal and procedural framework applicable to the support provided to the special political missions by the Secretariat, in particular the lack of delegation of procurement authority. As a result, those missions did not have proper delegation of procurement authority, but nevertheless engaged in procurement activities. Those missions were provided with limited support from the Secretariat in that regard because of a gap in coordination among the various departments involved. In particular, the Board of Auditors cited an internal audit report by the Office of Internal Oversight Services which concluded that, at the United Nations Office for West Africa, a number of irregularities in procurement had been found, most significantly the lack of delegation of procurement authority. The Board recommended that the Administration ensure that the Department of Political Affairs, together with the Department of Management and the Department of Field Support, agree on a precise and operational division of responsibilities for the administrative backstopping of special political missions, especially regarding procurement. The Administration accepted the recommendation, stating that the responsibilities for backstopping for special political missions, especially regarding procurement, were being discussed (A/65/296, para. 99).

29. Upon enquiry, the Advisory Committee was informed by the Administration that measures were under way to resolve the issues. **The Advisory Committee urges the Secretary-General to provide the General Assembly with information on the measures taken in the context of the Assembly's consideration of the report on estimates in respect of special political missions, good offices and other political initiatives (A/65/328).**

Non-expendable property

30. The Board estimated from the notes to the financial statements of the United Nations and its funds and programmes that the aggregate value of non-expendable property disclosed by entities totalled approximately $1.4 billion as at 31 December 2009 ($1.2 billion as at 31 December 2007). The Board reviewed the existing non-expendable property arrangement at the United Nations and its entities and noted the following examples of deficiencies: (a) the inventory reports included items that could not be located or were obsolete; (b) physical inventory counts were not always performed and items were not accounted for; (c) there were discrepancies between physical and recorded counts; (d) some manual fixed asset registers were prone to error; (e) adjustments were made to fixed asset registers without supporting documents; (f) reconciliation was not always performed between physical inventory and the fixed asset register; and (g) assets were not always properly tagged. The Board noted that many of those deficiencies had been pointed out for several bienniums, in some cases resulting in modified audit reports. The Board stressed the importance of addressing those deficiencies, considering that the custody of assets is an important duty of officials and also that the accounting treatment for assets will be profoundly changed with the implementation of IPSAS.

31. **The Advisory Committee reiterates its concern that improper accounting for non-expendable property has been a recurring theme in external and internal audit reports and continues to believe that the matter needs to be addressed urgently, in particular in the context of the introduction of IPSAS, under which the accounting modality for assets will be changed (see A/63/474, para. 27). The Committee also highlights the fact that similar deficiencies were observed in the auditing of funds and programmes (see para. 49 below). The Committee is concerned that the improper accounting for non-expendable property poses a financial risk, as well as a reputational risk to the Organization. The Committee reiterates its recommendation that the Secretary-General take swift action to address this concern at all management levels, and also develop timelines, with benchmarks, to monitor progress towards better record-keeping.**

Human resources management

32. The Advisory Committee intends to comment on the broader issues of human resources management in the context of its consideration of the Secretary-General's report on an overview of human resources management reform (A/65/305).

33. The Board pointed out that the set of staff competencies currently used at the Secretariat dates back to 1999 but that the Organization had experienced significant changes since then (A/65/5 (Vol. I), paras. 362-366). The Administration agreed with the Board's recommendation that the existing staff competencies be updated (A/65/296, para. 117). Upon enquiry, the Advisory Committee was informed that the Administration had launched a consultation process to reassess the competencies and that it was expected that a first draft would be available in the second quarter of 2011. **The Advisory Committee looks forward to the results of the reassessment of the set of staff competencies.**

Internal audit

34. The Board reiterated its concern with regard to the low completion rate of internal audit assignments, which was below 50 per cent during the biennium 2006-2007. While the Board noted that the rate had increased to 71.9 per cent in 2008 and 72.5 per cent in 2009, it noted that there was still room for improvement. For example, at UNHCR the completion rate for audits in 2008 was 68 per cent (or 13 out of 19 planned audits) and in 2009 69 per cent (33 out of 48 planned audits). At UNEP, of the eight OIOS audits planned for 2008-2009, the completion rate was 25 per cent (two completed audits). The Board reiterated its concern that the high vacancy rate was a significant factor in the low audit completion rate. As at 31 December 2009, of the 273 posts in the Internal Audit Division, 57 (21 per cent) were vacant; vacancy rates were particularly high in the Geneva (31 per cent) and Nairobi (50 per cent) offices.

35. **The Advisory Committee concurs with the observations of the Board of Auditors and urges OIOS to exert further efforts to increase the completion rate of audit plans. The Committee believes that the risks associated with high vacancy rates in OIOS have been systematically highlighted by the Board of Auditors and the Committee.**

Fraud and presumptive fraud

36. In accordance with the Financial Regulations and Rules of the United Nations, the Administration provided the Board of Auditors with a report of cases of fraud and presumptive fraud for the biennium 2008-2009. A total of 21 cases were reported, as compared with 14 during the biennium 2006-2007. The cases of fraud and presumptive fraud were valued at $730,049 for 2008-2009 and at $644,505 for 2006-2007.

IV. Funds and programmes

General observations

37. As noted in paragraph 3 above, the Board of Auditors issued eight unqualified opinions for the United Nations entities (the International Trade Centre, UNCTAD/WTO, UNU, UNDP, UNICEF, UNITAR, the United Nations Office on Drugs and Crime, the International Tribunal for the Former Yugoslavia and the United Nations Office for Project Services), modified audit opinions for six entities (UNRWA, UNHCR, UNEP, UN-Habitat, the International Criminal Tribunal for Rwanda and the United Nations Joint Staff Pension Fund), and one qualification and one emphasis of matter for one entity (UNFPA). **The Advisory Committee welcomes the unqualified audit opinions now achieved by UNOPS and the International Tribunal for the Former Yugoslavia. The Committee welcomes in particular the corrective actions undertaken by UNOPS which have resulted in its first unqualified audit opinion since the biennium 1999-2000.**

38. For UNFPA, the Board of Auditors issued a modified audit report with one qualification on the financial statements for the period under review and one emphasis of matter. The modification relates to the weaknesses in the nationally executed expenditure modality audit process and related results (see para. 46 below). With regard to nationally executed expenditures, the Board found several shortcomings in the audit reports issued by national execution auditors, including the absence of adequate supporting documentation in respect of a significant portion of the expenditures. The emphasis of matter relates to non-compliance with procedures at the UNFPA decentralized country offices visited by the Board. The Board indicated that there was a need for the urgent strengthening of field-based controls, as well as a regional and headquarters review to manage the exposure of UNFPA to risk. The Board further noted that the UNFPA internal audit function had also rated those country offices in over a quarter of their 34 reports as "unsatisfactory", while in half of the reports the offices were rated as "partially satisfactory".

39. The Advisory Committee met with UNFPA to discuss the audit findings and was informed that UNFPA had started to address the key issues raised by the Board. With regard to weak controls and the lack of compliance with UNFPA procedures by decentralized country offices, UNFPA indicated that it had started to address those issues in 2009 and that their full effects would start materializing in 2011, with a revision of the internal control framework and the development of an enterprise risk management framework. With regard to national execution, UNFPA indicated that it was working with Governments and non-governmental organizations to implement programmes and achieve results, but that the nationally executed expenditure modality involved a level of complexity that far exceeds the direct implementability

of UNFPA. UNFPA further noted that the strengthening of the national implementation and execution of programmes had been a major priority for the Fund since 2008.

40. **The Advisory Committee notes that UNFPA has initiated remedial action and trusts that the Board's findings for the biennium 2010-2011 will reflect an improvement in the Fund's overall operations.**

41. For UNRWA, the Board issued an unmodified opinion but expressed concern that the operational conditions that exist in Gaza pose a heightened risk for the proper functioning of certain internal controls. **The Advisory Committee recognizes the operational conditions under which UNRWA operates. The Committee notes, however, that such circumstances necessitate an increased focus on internal control measures, to the extent possible.**

Financial and related matters

42. The Board of Auditors continues to issue findings on the financial records of funds and programmes. For example, bank reconciliations at UNRWA, UNHCR and two UNFPA country offices had not been regularly reconciled and/or reviewed by senior management. The Board also noted that at UNFPA, long-outstanding transactions, some of which dated back to 2008, had not been recorded in the general ledger. Furthermore, the Board continued to identify weaknesses in the management and recording of unliquidated obligations. For example, at UNHCR, unliquidated obligations increased from $120.5 million in 2008 to $145.6 million in 2009, an increase of 20.8 per cent. The Board recommended that UNHCR expedite the clearing of unliquidated obligations against accounts payable. At UNEP, unliquidated obligations increased from $46.2 million to $90.2 million, or 95.4 per cent. The Board also observed some cases in which trust fund balances had no activities to utilize the funds or return them to donors. At UNDP, some trust funds had minimal or no expenditure throughout the biennium, with 104 trust funds showing deficit balances amounting to $15.9 million. At UNFPA, a total of 33 trust funds showed no activity or overexpenditure. The Board recommended that the entities follow up with donors to ensure that funds are properly utilized or returned to donors. **The Advisory Committee concurs with the Board that the above-noted financial matters should be resolved expeditiously as they expose the entities to financial risk and, in the case of trust funds, may have an impact on the entities' reputations, affecting the willingness of donors to provide funds in future.**

43. The Advisory Committee was informed by the Board that, according to the financial statements, the investments of the UNU Endowment Fund are managed by a financial advisory firm and overseen by the Investment Management Division of the United Nations Joint Staff Pension Fund and the Representative of the Secretary-General for Investments of the Pension Fund (see A/65/5 (Vol. IV), chap. V, notes to the financial statements, note 4). The Advisory Committee notes from the UNU statement of income and expenditures that the Endowment Fund reported a net loss in the amount of approximately $46 million on the sale of securities and that the University transferred approximately $33 million from the Endowment Fund to its operating funds.

44. With regard to the interpretation of the United Nations Financial Regulations and Rules under the United Nations system accounting standards, the Board noted

inconsistencies in the application of accounting methods and observed that financial statements and tables differed among the entities, even though those standards prescribe the layout and format. The Advisory Committee was further informed that the Board was concerned that, since the criteria used differ, those inconsistencies made it difficult to directly compare the financial statements of United Nations entities. The Board highlighted those inconsistencies: (a) the layout of financial statements is not uniform; (b) accounting policies differ, for example, in how funds advanced to implementing partners are treated, including at UNFPA and UNDP, where such funds are treated as outstanding operating funds, and at UNICEF and UNHCR, where such funds are recorded as expenses; (c) submission dates for financial statements of audits are not uniform, which can affect the time frame available for audit. **The Advisory Committee concurs with the Board that the inconsistencies in the regulations and rules should be considered in parallel with the implementation of the new IPSAS accounting standards**.

45. The Board of Auditors observed that, at UNEP, UN-Habitat and the United Nations Office on Drugs and Crime, the statements of income and expenditure did not disclose financial resources received from the regular budget. Resources from the United Nations regular budget for the biennium 2008-2009 for UNEP amounted to $16.9 million (or 2.3 per cent of UNEP income); for UN-Habitat, $24 million (or 7.7 per cent); and for the United Nations Office on Drugs and Crime, $41 million (or 7.5 per cent). The Board of Auditors recommended that either: (a) the title of financial statements be revised and the notes reflect that reporting is limited to voluntary funded activities; or (b) the entities consider preparing statements that include regular budget-funded activities. **The Advisory Committee notes that the entities are addressing the concerns of the Board**.

Project implementation

46. The Board continues to issue observations and recommendations on nationally executed projects, including the need to harmonize accounting methods for the payments made to implementing partners, the reconciliation of amounts paid to implement nationally executed projects, the establishment of a project management manual and the management of long-outstanding advances to implementing partners. For the biennium 2008-2009, the Board noted differences in the application of the nationally executed expenditure modality among entities, which apply a variety of rules and procedures in the management of the audit process for nationally executed projects. For example, at UNICEF cash assistance to Governments does not require mandatory audits similar to those under the nationally executed audit process, which presents less assurance in terms of how the funds are utilized. The Board highlighted weaknesses in the nationally executed audit process, for example at UNFPA, which could not provide to the Board accurate data on the submission of reports on nationally executed projects (see para. 38 above). The Board noted that UNFPA had not reviewed the data that was entered into the database on nationally executed projects and that a number of discrepancies existed. In addition, UNHCR received a qualified audit opinion as a result of the low rate of audit certificates for nationally executed projects for the year ended 31 December 2008. The Board also noted the new Harmonized Approach to Cash Transfers initiative with regard to funds provided for project implementation purposes and stated that it would keep the initiative under review. **The Advisory Committee**

emphasizes the need to strengthen the audit process for nationally executed projects.

Revenue-producing activities

47. The Board found that in 2008 and 2009, there were 29 and 27 UNICEF National Committees, respectively, that had retention rates for sales of greetings cards and gifts greater than 25 per cent. In addition, 24 National Committees had overall retention rates for revenue (including both the gross proceeds from the sales of greeting cards and gifts and revenue from private-sector fund-raising activities) greater than 25 per cent in both 2008 and 2009. The Board of Auditors had previously made the same observation (A/63/5, Add.2 and Corr.1, chap. II, paras. 185-188) and the Advisory Committee concurred that the retention limit should be applied and the exception be formalized (A/63/474, para. 42). For the biennium 2008-2009, the Board reiterated its recommendation that UNICEF adhere strictly to the 25 per cent limit provision contained in its Financial Regulations and Rules. UNICEF responded that it was considering an evaluation of the retention rates and that the renegotiation process was ongoing. **The Committee concurs with the Board of Auditors that, unless the limit is changed under the Financial Regulations and Rules, UNICEF should strictly adhere to the 25 per cent retention limit by National Committees.**

Procurement and contract management

48. The Board observed several instances of lack of compliance with procurement rules and highlighted these issues: (a) purchase orders exceeded the delegated authority; (b) bids were not compliant with rules; (c) procurement plans were inadequate or non-existent; and (d) vendor database management was inadequate, including vendor registrations which were not kept up to date. For example, two UNFPA country offices did not have supporting documents for vendors other than application forms, and at least 28 vendors that had provided services in one country office had not submitted their registration application forms. One UNFPA country office did not keep records of bid activities, and the Board was unable to determine whether all bids that were received were also evaluated to ensure a fair procurement process. The country office agreed with the Board's recommendation that it implement bid-receiving procedures in accordance with procurement policies and procedures. The Board of Auditors observed that procurement remains a high-risk area which, if not well managed, has the potential to undermine the integrity of the United Nations system and that procurement deficiencies need to be addressed fully and without delay so as to minimize the financial risk involved. **The Advisory Committee concurs with the Board's observation.**

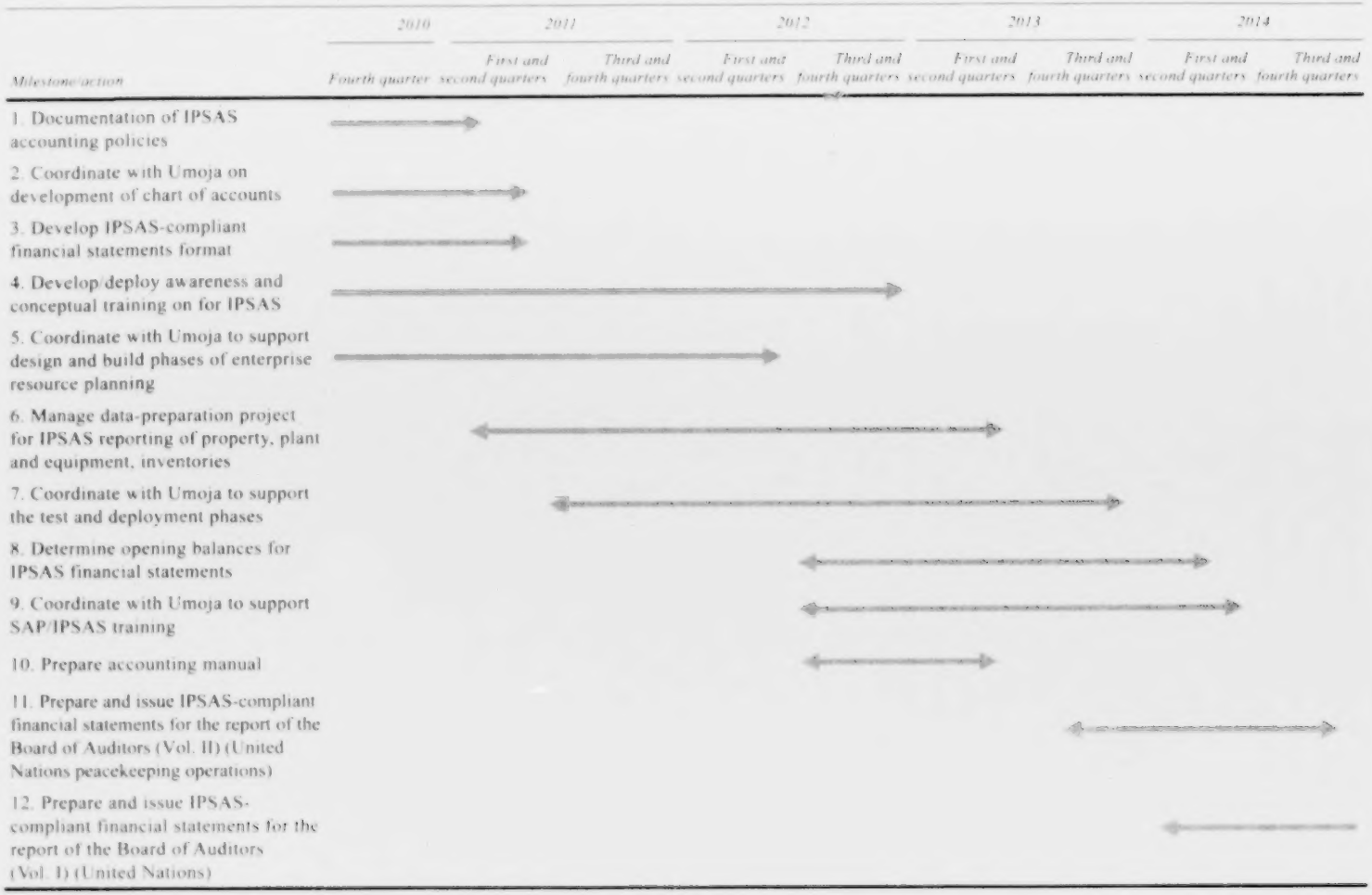
Non-expendable property

49. As noted in the context of the Board's findings on the United Nations (see paras. 30 and 31), the Board continues to reiterate its observations and recommendations on assets management overall, and on non-expendable property in particular. For example, at one UNFPA country office, no locations were indicated for 77 per cent of assets, and at another country office, no location was indicated for 82 per cent of assets. At UNHCR, two country offices were not performing reconciliations of assets owned by UNHCR but used by its partners. At one UNHCR country office, four vehicles valued in excess of $24,000 each were valued at zero.

and other vehicles could not be located in the asset report. **The Advisory Committee remains concerned about the continued improper accounting for non-expendable property, which poses a reputational risk, in particular to funds and programmes, which are largely dependent on voluntary funding.**

Annex

IPSAS project high-level timeline of milestones, 2010-2014


2010
2011
2012
2013
2014
Milestone/action
Fourth quarter
First and second quarters
Third and fourth quarters
First and second quarters
Third and fourth quarters
First and second quarters
Third and fourth quarters
First and second quarters
Third and fourth quarters
1. Documentation of IPSAS accounting policies
2. Coordinate with Umoja on development of chart of accounts
3. Develop IPSAS-compliant financial statements format
4. Develop/deploy awareness and conceptual training on for IPSAS
5. Coordinate with Umoja to support design and build phases of enterprise resource planning
6. Manage data-preparation project for IPSAS reporting of property, plant and equipment, inventories
7. Coordinate with Umoja to support the test and deployment phases
8. Determine opening balances for IPSAS financial statements
9. Coordinate with Umoja to support SAP/IPSAS training
10. Prepare accounting manual
11. Prepare and issue IPSAS-compliant financial statements for the report of the Board of Auditors (Vol. II) (United Nations peacekeeping operations)
12. Prepare and issue IPSAS-compliant financial statements for the report of the Board of Auditors (Vol. I) (United Nations)

Note: The timetable assumes the timely deployment of SAP to meet the IPSAS adoption target of 2014 and that the Umoja project maintains a synchronized timeline; information updated as of September 2010.